BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2009-473-W/S

IN RE: Application of Tega Cay Water Service Inc. for adjustment of rates and charges and modifications to certain terms and conditions for the provision of water and sewer service.	**DIRECT TESTIMONY OF STEVEN M. LUBERTOZZI**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Steven M. Lubertozzi. I am employed as the Executive Director of Regulatory Accounting and Affairs at Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

A. I have been employed by Utilities, Inc., or "UI", as an employee or independent contractor, since June of 2001. I have been involved in many phases of rate-making in several regulatory jurisdictions. I have testified in multiple regulatory jurisdictions, including South Carolina, North Carolina, Florida, Illinois, Indiana, Nevada, and New Mexico. I graduated from Indiana University in 1990, and I am a Certified Public Accountant. I earned my Master of Business Administration degree from Northwestern

University's Kellogg School of Management. I am a member of the American Institute of Certified Public Accountants

Q. WOULD YOU PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.?

A. My responsibilities encompass all aspects of utility commission regulation in fifteen of the states where Utilities, Inc. operates (Georgia does not regulate water and sewer utilities). These duties include preparation of rate case applications, coordinating commission audits, developing and delivering testimony before utility commissions and obtaining commission approval of service territory expansions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING, MR. LUBERTOZZI?

A. The purpose of my testimony is to sponsor Tega Cay Water Service, Inc.'s application for an adjustment of certain rates and charges for the provision of water and sewer services. I will also discuss the internal and external evaluation which UI has undertaken that resulted in replacement of our accounting and billing software and computer systems, known as Project Phoenix. Finally, I will discuss TCWS's request for modifications to its rate schedule to allow for electronic billing.

Q. PLEASE DESCRIBE TEGA CAY WATER SERVICE, INC.

A. Tega Cay Water Service, Inc., which I will sometimes refer to as "TCWS" or the "Company," is a wholly owned subsidiary of Utilities, Inc. TCWS was incorporated on

August 12, 1991 for the purpose of owning and operating water and wastewater utility systems. Since that time, TCWS has grown to serve approximately 1,800 water and 1,700 wastewater customers located in York County.

TCWS maintains an operations office in West Columbia, South Carolina, which is further discussed by Company witness Bruce Haas. As well, TCWS utilizes a consolidated customer service center located in Charlotte, North Carolina which is further discussed by Company witness Carl Daniel. Customer payments, meter readings and service orders are processed from this office. Administrative functions such as regulatory services, management, accounting, human resources and data processing are performed from the Utilities, Inc., office in Northbrook.

Q. WOULD YOU PLEASE DESCRIBE UTILITIES, INC.?

A. Yes. Utilities, Inc. or, as I will sometimes refer to it, "UI", is unique within the water and sewer industry in many respects. From its inception over 40 years ago UI has concentrated on the purchase, formation and expansion of smaller water and/or sewer utility systems. At the present time, UI has over 90 operating subsidiaries that provide service to approximately 300,000 customers in 15 states.

Q. DO TCWS CUSTOMERS BENEFIT FROM THE COMPANY'S SUBSIDIARY RELATIONSHIP WITH UI?

A. Yes. The Company's relationship with UI has many benefits for our customers. One of the primary benefits is that TCWS has access to a large pool of human resources from which to draw. There are experts in various critical areas, such as construction,

engineering operations, accounting, data processing, billing, regulation, customer service, etc. This serves TCWS's customers well in that UI is able to provide the highest level of combined expertise and experience in a more cost effective manner. In particular, UI provides managerial and professional services at a cost lower than is available in the open market. TCWS is then able to pass these savings on to its customers through lower rates.

Because the UI companies are focused on the water and sewer industry, our companies enjoy some unique advantages, one of which is that capital is available for improvements to and expansions of our individual systems at a more reasonable cost than would be the case if the company were not wholly owned by UI. With increasingly more stringent health and environmental standards, ready access to capital will prove vital to continued quality service in the water and sewer utility business.

In addition, the UI group of companies has national purchasing power that results in lower costs to rate payers. Expenditures for insurance, vehicles, chemicals and meters are a few examples of purchases where national contracts provide tangible benefits to rate-payers.

Q. WHY IS TCWS REQUESTING RATE RELIEF AT THIS TIME?

A. Under present rates, TCWS is not able to meet its operating costs and earn a reasonable return on its investment in the TCWS system. The utility's current income statement is shown in the Company's Rate Case Application, Schedule B.

For the test year ended December 31, 2008, TCWS earned a 4.07% return on its rate base, which is between approximately 4.58% to 4.84% lower than the Company's current cost of capital which, as the Commission will hear from the Company's cost of

capital witness Pauline Ahern, is 8.65% to 8.91%. This return on rate base is also approximately 3.57% below that authorized in the Commission's last order granting rate relief to TCWS.

According to the statistics compiled by the United States Department of Labor Bureau and Labor Statistics, the cost of water and sewer maintenance alone has increased approximately by 5.69% per year since the last rate case. Without satisfactory rate relief, TCWS's ability to continue to provide safe, reliable and efficient water and sewer utility services to its customers will be placed in jeopardy, and TCWS will be unable to meet its financial obligations.

Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.

A. The Rate Case Application includes the financial statements for TCWS. The subsections are as follows:

Schedule A – Balance Sheet

Schedule B – Income Statement

Schedule C – Rate Base and Rate of Return

Schedule D – Test Year / Present Revenues

Schedule E – Proposed Revenues

Schedule F – Current and Projected Customers

Schedule G – Effect of Proposed Rates

Also, included are the most recent letters from DHEC, a sample customer bill form and the Company's most recent Gross Receipts Tax filing. The test year chosen is the year ended December 31, 2008 which was the twelve-month period of the Company's most

recent fiscal year available at the time of the Company's filing.

Q. PLEASE EXPLAIN HOW TEST YEAR EXPENSES WERE ADJUSTED.

A. Pro forma adjustments were made to the test year expenses based on known and measurable changes to actual expenses.

Q. WHAT ARE THE KNOWN AND MEASURABLE PRO FORMA ADJUSTMENTS MADE TO THE INCOME STATEMENT SCHEDULE B?

A. The following adjustments have been made to the income statement:

- Revenues are annualized at proposed rates using the average test year customers;
- Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to pro forma proposed revenues;
- Salaries, Wages and Benefits are adjusted to annualize as of the end of the year;
- Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 3 years;
- Depreciation and Amortization Expense are annualized. Depreciation expense represents gross depreciable plant at the end of the year plus pro forma projects multiplied by their respective depreciation rates;
- Taxes other than Income are adjusted for annualized payroll taxes, Utility Commission Taxes, and Gross Receipts Taxes;
- Income Taxes are computed on taxable income at current rates;
- AFUDC is eliminated for rate making purposes;
- Interest on debt is computed using a 53.3%/46.7% debt/equity ratio and a 6.60% cost of debt; and
- A consumer price index increase of 5.69% has been included;
- Adjustment has been made to reflect DHEC fees attributable to TCWS;

- Transportation and depreciation expense adjustments are based on a new allocation methodology;
- Operating expense charged to plant has been adjusted for projected increases in salaries, taxes, and benefits for operators.

The Company's pro-forma operation expenses have increased by 11% since the Company last received rate relief. This increase in expenses contributes to the Company's need for rate relief.

Q. REGARDING THE COMPANY'S EXPENSES, CAN YOU DETAIL HOW THOSE EXPENSES HAVE INCREASED SINCE THE COMPANY'S LAST RATE INCREASE AND ITS LAST RATE CASE TEST YEAR?

A. Certainly. In 2005, TCWS filed an application for an adjustment in its rates and charges in Docket No. 2006-97-W/S. Since the test year in that proceeding, which was for the twelve-month period ending September 30, 2005, the Company has experienced an increase in expenses in the following areas:

	Pro Forma Present Per 05 Application	Pro Forma Present Per 08 Application	Difference	%
Purchased Power/ Water/ Sewer, Chemicals	65,042	78,495	13,453	21%
Salary, Benefits, Insurance	262,312	271,726	9,414	4%
Office Supplies/ Maintenance/Utils.	40,512	86,884	46,372	114%
Maintenance/ Testing/Oper. Expense	240,972	280,060	39,088	16%
Transportation	11,750	33,780	22,030	187%
Regulatory Commission Expense	57,387	85,383.74	27,997	49%
Depreciation	218,280	201,082	(17,198)	-8%
Amortization	(121,204)	(130,230)	(9,026)	7%
Taxes	116,368	83,101	(33,267)	-29%
Total	891,419	990,282	98,863	11%

Q. REGARDING THE COMPANY'S RATE BASE, HAS IT ALSO INCREASED SINCE THE COMPANY'S LAST RATE INCREASE AND ITS LAST RATE CASE TEST YEAR AND, IF SO, HOW?

A. Yes. Since TCWS's test year ending September 30, 2005, TCWS also has increased its total rate base from $2,204,579 to $2,973,771 as follows:

	Pro Forma Present Per 05 Application	Pro Forma Present Per 08 Application	Difference	%
Plant in Service	11,690,514	13,111,835	1,421,321	12.16%
Accumulated Depreciation	(2,808,528)	(3,219,517)	(410,989)	14.63%
Cash working capital	84,747	118,760	34,013	40.13%
CIAC	(6,815,145)	(6,369,241)	445,904	-6.54%
Customer deposits	(58,630)	(51,227)	7,403	-12.63%
ADIT	(504,317)	(616,840)	(112,523)	22.31%
Plant Acquisition Adjustment	284,833	-	(284,833)	-100.00%
Water Service Corporation	17,871	-	(17,871)	-100.00%
General Ledger Additions	108,187	-	(108,187)	-100.00%
Cap Time Additions	35,607	-	(35,607)	-100.00%
Pro Forma Plant	186,815	-	(186,815)	-100.00%
Pro Forma Retirements	(17,375)	-	17,375	-100.00%
Total	2,204,579	2,973,771	769,192	34.89%

As well, TCWS has made improvements in several categories of plant which are more fully described in Exhibit A attached to my direct testimony. It is important to note that Water Service Corporation ("WSC") rate base in 2006 was presented separately in the filing. In 2008 it has been included as part of the total Plant in Service. Additionally, the 2006-2008 pro forma projects reflected in the application have been accounted for separately.

Q. HOW HAS THE SUBDIVISION SERVED BY TCWS BENEFITTED FROM THE ADDITIONS TO PLANT?

A. As shown in the above chart, the Company has added approximately $800,000 in plant in service since its last rate case. Of this amount, approximately $400,000 has been invested in system improvements. As more fully addressed by Company Witness Haas, these plant additions include installation telemetry alarm control, drive improvements, installation of UV disinfection and other plant used in ensuring that customers receive safe and reliable sewer service. The Company has also added approximately $400,000 in plant which are direct general ledger additions. Company Witness Haas will further describe these improvements as well; however, these items include:

- 2006 – Installation telemetry alarm controls (20) lift stations. This improvement totaled $27,630.50
- 2006 – Access drive improvement to #2 WWTP. This improvement totaled $19,273.48.
- 2007 – Rebuild blower and blower motor at WWTP #2. These improvements totaled $11,029.68
- 2007 – Installation of UV disinfection at the WWTP #4. This improvement totaled $69,771.62.
- 2008 – Installation of UV disinfection at WWTP #2. This improvement totaled $210,121.
- 2008 – Installation UV disinfection at WWTP #3. This improvement totaled $201,425.

Q. HAVE THERE BEEN ANY OTHER IMPROVEMENTS RELATING TO THE COMPANY?

A. Yes. In addition to the improvements I previously mentioned, TCWS's parent

company Utilities, Inc. recently spent significant capital to replace their aged accounting and customer care and billing systems which the Company refers to as Project Phoenix. This change included both software and hardware changes.

Q. PLEASE DESCRIBE PROJECT PHOENIX.

A. Project Phoenix is the name of UI's initiative to evaluate the state of its processes and systems.

Q. WHY DID UTILITIES, INC. INITIATE PROJECT PHOENIX?

A. UI had not made a significant investment in technology in quite some time. Antiquated systems, lack of integration, and the lack of standardization were beginning to have an adverse effect on the UI operating subsidiaries and their customers. Accordingly, UI need to improve capabilities and processes in the accounting, customer service, customer billing and financial and regulatory reporting areas.

Q. WHEN DID PROJECT PHOENIX BEGIN?

A. Project Phoenix actually began in early 2006 with a series of internal and external evaluations, which culminated in a business case presentation by Deloitte & Touche to UI in September 2006.

The business case presentation confirmed UI's initial evaluations that fragmented and non-standardized processes were complex and inefficient, with an attendant risk of error and control breakdown, the existing infrastructure unnecessarily placed stress on UI's human capital, the legacy financial and customer care systems ('legacy") were either

fully customized or unsupported, or both, which resulted in a risk of breakdown and impeded management's ability to obtain information to make decisions, and use of spreadsheets made ensuring accuracy and control difficult, resulting in the potential for errors in operation and regulatory reports.

After an evaluation of potential solutions, UI management selected JD Edwards Enterprise One ("JDE") as the financial system, including asset management, and Oracle's Customer Care and Billing System ("CC&B") as the customer information system. These systems are integrated in a manner that allows for the sharing of crucial information between UI's different operational organizations and resolve the deficiencies that were noted in the April 2, 2007, Management Audit performed by Schumaker & Company.

Q. WOULD YOU PLEASE EXPLAIN THE BASIS FOR YOUR LAST STATEMENT?

A. Yes. In Docket No. 2004-357-W/S, the South Carolina Office of Regulatory Staff recommended to the Commission that a management audit should be performed. In furtherance of this management audit, ORS initiated a Request for Proposal (RFP) process with the South Carolina Materials Management Office to conduct a management audit of Water Services Corporation with regard to Carolina Water Service, Inc., Utilities Services of South Carolina, Inc., Southland Utilities, Inc., United Utility Companies, Inc, and TCWS. ORS stated that the selected contractor would "conduct a management audit on Water Services Corporation in the following three areas: 1) Basic Corporate Decision-Making; 2) Major Operational Activities; and 3) Staff Function." The Commission

approved the Management Audit by way of its Order No. 2006-284, dated May 17, 2006, in Docket Nos. 2004-357-W/S, 2006-92-W/S, 2006-97-W/S and 2006-107-W/S. Thereafter, Schumaker and Company performed a management audit of UI and its subsidiaries and released its report on April 2, 2007, which was subsequently filed with the Commission by ORS on May 7, 2007.

Q. DID THIS MANAGEMENT AUDIT ADDRESS UI'S COMPUTER SYSTEMS AND SOFTWARE?

A. Yes, it did. It made certain recommendations to UI and WSC which, directly or indirectly, constituted recommendations for improvements to computer systems and software. These recommendations, included, but are not limited to, the following:

- Redesign of customer service functions to include a consolidation of activities into fewer locations, adoption of newer call center technologies, and improvement of other business processes. (Recommendation III-2)

- Emphasis on increased use of time reporting for allocation purposes once the Accuterm system has been replaced. (Recommendation III-3).

- Begin properly reporting customer data to the Public Service Commission of South Carolina and the South Carolina Office of Regulatory Staff in annual reports. (Recommendation III-4)

- Expedite implementation of a new accounting system to allow for increased automation of the allocation process. (Recommendation III-5)

Additionally, as identified on page 46, the management audit states as follows:

> Over the last ten years with the advent of newer technologies, utilities have been reducing the number of call centers, implementing automatic call director technologies, and implementing various bill payment methods (electronic, credit card, etc.) and bill processing technologies. Utilities develop specific measurements to measure performance in call centers and bill processing centers. Some of these measures would include:

- Average speed of answer
- Average handling time
- % bills processed day received
- % bills handled manually

> Many of these measurements are actually only possible with the installation of certain technologies – none of which WSC currently has employed. Without such indicators, it is not possible to objectively measure performance in the customer service area. Business processes will need to be modified with the adoption of these newer technologies.

(Emphasis supplied.)

Q. ARE THESE RECOMMENDATIONS CONSISTENT WITH CONCERNS EXPRESSED BY THE COMMISSION TO UI OPERATING SUBSIDIARIES IN SOUTH CAROLINA?

A. Yes. For example, I am aware that the Commission has expressed concerns over the years regarding the timeliness of responses to customer inquiries and the collection and retention of customer complaint data. Schumaker and Company identified both of these concerns in its management audit. The additions to rate base associated with the computer and software systems address these concerns.

Q. HAS THE COMMISSION INDICATED TO UI OPERATING SUBSIDIARIES THAT PURSUIT OF THE MANAGEMENT AUDIT RECOMMENDATIONS IS IMPORTANT TO THE COMMISSION?

A. Yes, it has. Since the issuance of the management audit report, the Commission has inquired of UI operating subsidiaries about a number of the recommendations made in the management audit, including performance of market studies for affiliate transactions and consideration of consolidation of operating entities to name just two.

The additions to rate base arising from Project Phoenix directly address concerns which were presented through the management audit at the request of ORS and as approved by the Commission. Because these improvements address many of the concerns raised in the management audit, the Company believes that they have been beneficial to the Company, its customers, and the regulators.

Q. WOULD YOU DESCRIBE HOW THESE IMPROVEMENTS HAVE BEEN BENEFICIAL?

A. Yes. As a result of these improvements, TCWS, its customers, and ORS should see marked improvements in TCWS's operations. Generally speaking, the enhanced record keeping and retrieval functions associated with the computer and software improvements will allow for faster, easier and more accurate production of financial and regulatory reports. This allows the Company to respond more quickly and to facilitate the regulatory process. Customers should also realize benefits from these changes through an improved management decision making process which will allow the Company to more efficiently deliver reliable information to regulators. For example, customer data can now be more accurately and quickly reported to ORS and the Commission in annual reports which directly addresses Recommendation III-4 of the management audit. The system also reduces manual effort and reliance on spreadsheets which again improves the reliability of reports. As well, the new accounting system allows for increased automation of the cost allocation process, thus ensuring that each subsidiary bears its proportionate share of the shared costs through the operations of WSC. And, these improvements enhance time reporting of the WSC employees for

allocation purposes. In these regards, Project Phoenix directly addresses Recommendations III-3 and III-5 of the management audit.

With regard to the benefits customers will realize, the transition to CC&B from UI's previous customer and billing system, legacy, resulted in many improvements and addresses many of the concerns set forth in the management audit. For example, CC&B allows field activity information at a customer premise to be stored in the records indefinitely, allowing field personnel to retain prior history of past service issues at a residence. This allows the Company to act in a cost-effective manner when considering repair or replacement of equipment or lines at a customer premise, thus addressing Recommendation III-1 of the management audit.

In addition, CC&B addresses many of the concerns set forth in Recommendation III-2 of the management audit relating to customer service functions. For instance, CC&B automates field activity dispatching and allows for uploading and downloading to hand-held devices. This in turn allows the field operators to complete field activities in a live environment so that CSR's (customer service representatives) have the information available to them as soon as the order is completed. Therefore, this enhanced capability allows the Company to more directly, accurately, and quickly respond to its customers who, many times, are not at their premises when they call customer service to inquire about the status of a customer service matter. In addition, customer bills generated by CC&B demonstrate the enhanced information retrieval capabilities of the CC&B system and allow a customer to compare the customer's consumption to prior months, as well as the same month from the previous year. UI believes this is useful information for customers who desire to be cognizant of consumption trends – which most customers

should and do. This enhanced information therefore allows customers the ability to review their account history, to make more informed decisions about their service, and to recognize changes in their service usage. These functionalities either did not exist, or required significantly more time and effort to discharge, under the legacy system.

In addition, the CC&B system has several other improvements which address the customer service findings and recommendations of the management audit. For instance, the system:

- Provides for the automatic proration of billings based on number of days in read period or bill period.

- Provides more efficient means of billing customers who have one account, but more than one premises.

- Delivers more account history to CSRs which can be used to answer questions from customers.

- Gives Field Operators access to customer premise and service point information as well as meter information and meter readings, which was not remotely available before, thus making field response times quicker and more efficient.

- Allows account numbers to stay with customers for life. This gives the Company the ability to track a customer from location to location and eliminates any customer confusion about account information.

- Displays more information on one screen for customer service to assist customers.

- Configures the Collections and Severance process automatically which reduces error from input and, thus, errors in terminations of service.

- Provides real time updates to the system regarding completion of field activities, payments and adjustments, and customer information.

- Gives customers the ability to view their account using the internet and have access to billing information and to update their account information.

- Allows for quicker return of information to the user and allows for quicker fixes should the system need to go down for routine maintenance or otherwise.

Q. HAVE THESE IMPROVEMENTS TO COMPUTER AND SOFTWARE SYSTEMS ALLOWED THE COMPANY TO ADDRESS OTHER RECOMMENDATIONS MADE IN THE MANAGEMENT AUDIT?

A. Yes. Most notably, these improvements to UI's computer and software have allowed TCWS to implement management audit Recommendation III-2 which, as I noted above, states that UI's operating subsidiaries should redesign their customer service functions so as to consolidate these activities in fewer locations using call center technologies.

Q. HOW HAS THIS SPECIFIC RECOMMENDATION BEEN ADDRESSED?

A. Using the enhanced capabilities of our new computer and software systems, we have been able to reduce by four the number of customer service representatives located in our West Columbia office and consolidate many customer service activities in our Charlotte office. Company Witness Carl Daniel addresses the consolidation and the derived benefits more fully in his direct testimony.

Q. REGARDING YOUR EARLIER TESTIMONY CONCERNING THE FINANCIAL SYSTEM SELECTED AS PART OF PROJECT PHOENIX, KNOWN AS JDE, WHEN WAS THAT SYSTEM PLACED INTO SERVICE?

A. JDE was officially placed in service on December 3, 2007.

Q. WHAT IS THE TOTAL COST OF THE JDE PROJECT INCURRED BY UTILITIES, INC.?

A. The total cost of the JDE system was $13,995,789.

Q. WHAT PORTION OF THE COST OF JDE INCURRED WAS ALLOCATED TO TCWS?

A. Approximately $159,552 was allocated to Tega Cay.

Q. WHERE CAN THE ALLOCATION OF THAT COST BE FOUND IN TCWS'S FILING?

A. The allocation of the UI's investment in JDE to TCWS is included in both rate base and operating expenses. These costs are allocated between TCWS's water and sewer operations.

Q. HOW WAS THAT ALLOCATION DEVELOPED?

A. UI uses an allocation process based on equivalent residential connections or "ERCs." ERC's are established for each of UI's operating subsidiaries for allocating corporate costs. The allocation of Project Phoenix costs that was prepared for this case utilized the TCWS ERCs at the end of the test year in comparison to the total ERCs for UI. Dividing the TCWS ERCs by the total ERCs resulted in a percentage value that was then multiplied by the total investment in JDE.

Q. YOU MENTIONED THAT ERCs HAVE BEEN ESTABLISHED FOR EACH OF

UI's OPERATING SUBISIDIARIES FOR ALLOCATING CORPORATE COSTS. PLEASE EXPLAIN.

A. We have established an ERC amount for each of our operating companies that is used in allocating the costs of the services that are provided by our service company, WSC, and the assets that are used to serve these operating companies. Previously, these costs had been allocated based on Customer Equivalents ("CEs").

Q. WHY WAS THE CHANGE MADE TO ERCs?

A. There are several reasons. First, ERC is a recognized method of allocation by the American Water Works Association ("AWWA"). The ERCs are calculated based on the equivalent meter factors as established by the AWWA and contained in the AWWA Manual M 6, Water Meters, Selection, Installation, Testing and Maintenance. These factors are used in establishing water and wastewater rates for utilities throughout the country and represent the maximum demand that a customer could place on the system.

Second, because the CE allocation method focused on the estimated number of units served by a single connection, and not the actual demand the units put on the system, this method divorced the costs allocated to customers from the actual capacity required from the system. By comparison, the ERC methodology recognizes the resulting cost difference between the capacity required for large use customers and our smaller use customers.

Q. IS THE ERC METHODOLOGY REASONABLE?

A. Yes. We believe that Using ERCs is a fair and appropriate method of allocation and results in a simpler and more accurate method for determining the allocations for

each subsidiary. Because of these reasons, ERCs are used in all of the other jurisdictions in which our operating companies serve and have received rate relief that feature the ERC methodology including Florida, Nevada, North Carolina, Louisiana and Georgia. Rate cases are pending in other states and, as of yet, no public service commission has disallowed the ERC methodology. Needless to say, it is essential that one method of allocation be used by all of our companies in order to avoid problems with under- or over-recovery of allocated costs.

Q. WITH RESPECT TO THE CUSTOMER INFORMATION SYSTEM SELECTED AS PART OF PROJECT PHOENIX KNOWN AS CC&B, WHEN WAS THAT SYSTEM PLACED INTO SERVICE?

A. CC&B was placed into service on June 2, 2008.

Q. WHAT IS THE TOTAL COST OF THE CC&B PROJECT INCURRED BY UTILITIES, INC.?

A. The total cost of the CC&B system as of 12/31/08 was $7,151,369.

Q. WHAT PORTION OF THE COST OF CC&B INCURRED WAS ALLOCATED TO TCWS?

A. Approximately $81,526 was assigned to TCWS.

Q. WHERE CAN THE ALLOCATION OF THE COST OF CC&B BE FOUND IN TCWS'S FILING?

A. The amount of UI's investment in CC&B allocated to TCWS is contained in both the rate base and operating expense amounts set out in the application.

Q. HOW WAS THAT ALLOCATION DEVELOPED?

A. The allocation was developed in the same manner as the JDE allocation.

Q. WHAT ARE THE PRO FORMA ADJUSTMENTS MADE TO THE RATE BASE STATEMENT (SCHEDULE C)?

A. The following adjustments were made to the rate base statement:

- Working capital has been calculated based on pro forma expenses;
- Accumulated depreciation has been adjusted for planned additional capital investments, retirements and plant held for future use. Accumulated depreciation for computers and vehicles is recalculated based on the ERC allocation methodology.
- General ledger additions and associated accumulated depreciation up to rate base audit cut-off date established by the Office of Regulatory Staff, or "ORS", have been added.
- Contribution in aid of Construction or "CIAC" amortization expense is annualized using the appropriate amortization rate.

As of December 31, 2008, the Company has a rate base of approximately $3 million. Between 2006 and 2008, TCWS has spent approximately $1.1 million on capital expenditures for various projects throughout, including the upgrades to several wastewater treatment plants along with other infrastructure. A list of these capital improvements is provided as an exhibit to the testimony of Company witness Bruce Haas. Documentation of these improvements was also provided to ORS in the course of its audit.

Q. YOU MENTIONED THAT THE COMPANY ADDED GENERAL LEDGER ADDITIONS AND PRO FORMA PLANT ADDITIONS; COULD YOU DESCRIBE THOSE PROJECTS?

A. Certainly. TCWS has completed the following pro forma projects:

Install UV disinfection at WWTP # 2	210,121
Install UV disinfection at WWTP # 3	201,425
TC #2 TP04	75,000
TC #3 TP04	75,000
Retirements for pro forma projects 2008	(308,660)
Wells and Springs increase	352,044
2009 G/L Additions treated as pro-forma	117,619
Re-allocation of Vehicles and Computers	(83,345)
Total 2008 Pro Forma Adjustments in Filing	639,204

Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED CHANGES IN THE COMPANY'S RATE SCHEDULE?

A. Exhibit "A" to the Application contains the Company's Schedule of Proposed Water and Sewer Charges. The company has proposed to increase the water customer Residential Base Facility Charge and the Commercial Base Facility Charge from the current charge of $7.56 per month to $9.21 per month and the water Commodity Charge from $1.69 per 1,000 gallons to $2.06 per 1,000 gallons. The Hydrant Rental Charge from the current charge of $8.33 per month increased to $10.15 per month.

The Company has proposed to increase its sewer charges as follows:

Type	Present	Proposed
Residential	$33.02	$40.12
5/8” Commercial	$33.02	$40.12
1” Commercial	$33.02	$40.12
2” Commercial	$33.02	$40.12

Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE THAT THE COMMISSION EMPLOY IN THIS RATE CASE?

A. The Company proposes that its rates continue to be determined utilizing the rate of return on rate base methodology. The Company has a large rate base and needs to earn a rate of return that is sufficient to obtain the necessary equity and debt capital that a larger utility needs for sound operation.

Q. DOES THE COMPANY SEEK TO INCLUDE ANY PAYMENTS TO AFFILIATED ENTITIES?

A. Yes, the Company proposes to include payments to an affiliated company, Bio-Tech, Inc. However, Company Witness Bruce Haas will address that issue.

Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES PROVIDED TO THE COMPANY BY WATER SERVICE CORPORATION ALSO CONSTITUTE AFFILIATE PAYMENTS?

A. No, they would not because there are no payments involved, only expense

allocations. As the Commission knows from the nearly thirty years worth of rate cases it has considered involving the Company and other affiliates of Utilities, Inc., WSC is captive in the sense that its services, which include management, payroll, tax, accounting and procurement services, are only provided to subsidiaries of Utilities, Inc. As the Commission's decisions through the years accepting this arrangement reflect, it is cost efficient since it avoids duplication of these services and functions for each operating company subsidiary. This conclusion is tested in each rate case by an audit of the allocations and the records of WSC.

Q. YOU ALSO MENTIONED THAT YOU WOULD DISCUSS A MODIFICATION TO THE COMPANY'S RATE SCHEDULE. WHY IS THE COMPANY PROPOSING TO MODIFY ITS TERMS AND CONDITIONS TO ALLOW FOR ELECTRONIC BILLING?

A. The Company believes that its proposed language on electronic billing will provide customers with additional billing options which will allow for electronic billing and payment. Electronic billing would not be required of all customers, but would only be provided as a service if a customer chooses and when it is within the capability of the Company. TCWS believes that its customers would appreciate the opportunity to receive and pay their bills online and that they would benefit from the ease and convenience of maintaining their utility account online.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Tega Cay
Plant Reconciliation

LEGACY	JDE	NARUC	OBJ ACCOUNT	2006	2007	2008
3011000	1020	301	ORGANIZATION	-	-	-
3021002	1025	302	FRANCHISES	7,932.02	200.00	-
3036010	1045	304	LAND & LAND RIGHTS GEN PL	-	1,105.00	(12.48)
3042011/3043021	1050	304	STRUCT & IMPRV SRC SUPPLY	1,688.54	836.67	7,726.73
3044031	1055	311	STRUCT & IMPRV WTR TRT PL	93.75	-	-
3072014	1080	320	WELLS & SPRINGS	683.77	(704,017.58)	-
3090000	1090	330	SUPPLY MAINS	-	-	6,181.12
3113025	1105	331	ELECTRIC PUMP EQUIP WTP	1,657.00	1,231.21	35.21
3204032	1115	333	WATER TREATMENT EQPT	-	-	57.73
3305042	1120	334	DIST RESV & STANDPIPES	2,459.87	-	133.35
3315043	1125	334	TRANS & DISTR MAINS	9,650.35	12,084.22	28,761.16
3335045	1130	335	SERVICE LINES	37,655.22	36,189.40	5,323.10
3345046	1135	305	METERS	-	-	266.37
3345047	1140	341	METER INSTALLATIONS	766.25	796.26	504.20
3355048	1145	344	HYDRANTS	3,655.92	2,047.33	3,327.66
3406090	1175	345	OFFICE STRUCT & IMPRV	-	31,611.00	56,895.79
3406091	1180	347	OFFICE FURN & EQPT	-	15,051.00	20,997.04
3466094	1190	349	TOOL SHOP & MISC EQPT	2,841.86	1,500.00	23,701.22
3446080/3446095	1195	351	LABORATORY EQUIPMENT	2,709.55	-	5,100.30
3466093/3466097	1205	354	COMMUNICATION EQPT	414.22	4,191.00	8,536.46
3486098	1220	354	OTHER TANGIBLE PLT WATER	-	(90,318.00)	-
3511000	1245	355	ORGANIZATION	-	-	-
3537002	1285	355	LAND & LAND RIGHTS GEN PL	-	-	955.00
3542011	1295	360	STRUCT/IMPRV PUMP PLT LS	79,425.92	24,598.97	-
3547021	1315	361	STRUCT/IMPRV GEN PLT	-	-	85,602.19
3550000	1330	363	POWER GEN EQUIP TREAT PLT	-	-	11,029.68
3602006/3602007	1345	371	SEWER FORCE MAIN	13,370.60	13,045.86	6,384.21
3612008/3612010	1350	380	SEWER GRAVITY MAIN	28,717.88	13,403.65	14,187.12

3612008	1360	389	SERVICES TO CUSTOMERS	-	-	1,696.75		
3710000	1380	389	PUMPING EQUIPMENT PUMP PL	-	-	5,480.70		
3804004	1395	394	TREAT/DISP EQUIP LAGOON	1,577.55	-	-		
3804005	1400	396	TREAT/DISP EQUIP TRT PLT	100,815.00	36,420.93	5,723.68		
3824009	1420	397	OUTFALL LINES	-	-	855.00		
3824009	1435	376	OTHER PLT PUMP	-	-	-		
3824009	1440	342	OTHER PLT TREATMENT	-	-	1,185.98		
3937094	1470	341	TOOL SHOP & MISC EQPT	-	-	4,868.72		
3947095	1480	341	POWER OPERATED EQUIP	-	-	348.25		
3967097	1485	341	COMMUNICATION EQPT	-	-	756.97		
3752008	1540	341	REUSE TRANMISSION & DIST	-	-	8,088.10		
3917000	1555	105	TRANSPORTATION EQPT WTR	172,050.59	(136,866.65)	(9,585.85)		
3406010	1580	#N/A	MAINFRAME COMPUTER WTR	-	7,399.00	180.12		
3406020	1585	#N/A	MINI COMPUTERS WTR	-	15,452.00	37,857.38		
3406110	1590	#N/A	COMP SYS COST WTR	-	10,965.00	247,644.40		
3406120	1595	#N/A	MICRO SYS COST WTR	-	6,536.00	789.37		
1052093	1739	#N/A	SEWER PLANT IN PROCESS	-	-	-		
			TOTAL	468,165.86	(696,537.73)	591,582.73		

2006	2007	2008				
468,166	(696,538)	591,583				
	11,690,514	09.30.05 Ending PiS Balance (Including Transportation) Per Application				
	314,415	4th quarter				
	12,004,929	Per 12.31.05 Ending PiS Balance				
	104,490	Plant Acquired Disposal				
	363,211	Total Net Plant Additions from 2005 thru 2008				
	12,472,630	2008 Ending PiS Balance Per Filling CRB Schedule				
	639,204	2008 Pro Forma Adjustments				
	13,111,834	Total PiS Pro Forma Present				
	1,421,320	Total Increase in Plant 2006-2008				